Corporate Investment, Financial Flexibility, and the COVID-19 Crisis

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Discussion by

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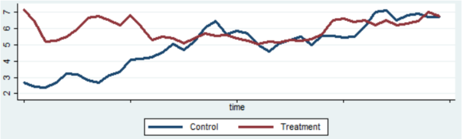
Summary

- Question
  - How does financial flexibility affect investment during a crisis?
- Approach
  - Exploit timing of COVID-19 and measures of flexibility
- Key Results
  - Leverage and constraints affect investment, not cash
  - Investment channel of monetary policy weaker during COVID
  - Monetary policy most effective for cash-rich and small firms
- Comments
  - Empirical Design
  - Expectations
  - Mechanism

Empirical Design

- Authors test for differences across firm flexibility
- Time-varying differences might be endogenous
- Are the two groups comparable?
- Suggestion: Investigate pre-trends



Expectations

- Firms investment $\sim$ Expectations
- Expectations correlate with:
  - Cash and leverage
  - Monetary policy
- Suggestions:
  - Measure flexibility prior to yield curve inversion
  - Incorporating monetary policy surprises

The Great Yield Curve Inversion of 2019

KEVIN DRUM
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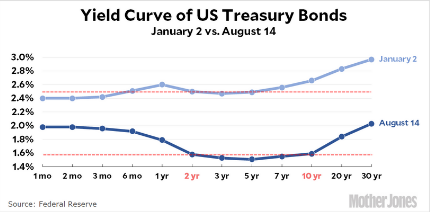
Yesterday the yield curve inverted: the interest rates on 10-year treasury bonds were briefly lower than the interest rates on 2-year bonds. But that's not a curve. It's just two points. So why is it called a yield curve? Here's why:



Mechanism

- How do banking relationships explain firm investment during COVID?
- Bank lending channel $\rightarrow \triangle$ Credit $\rightarrow \triangle$ Investment
- Suggestion: Examine how effects vary across banking relationships
- Data sources:
  - DealScan
  - HMDA and CRA data linked to HQ

Conclusion

- Paper investigates important question about firm investment
- Exploits COVID to compare responses across firm flexibility
- Could improve with more precise design and exploring the mechanism